
must be directly identified and classified to the appropriate cost categories on the basis of time distribution records that show actual time spent, or an accurate estimate of time spent on various activities. Except as provided in item D, the compensation of persons who have top management responsibilities may be classified to a cost category other than administrative operating costs to the extent justified in time distribution records showing the actual time spent, or an accurate estimate of time spent on various activities. Any facility or provider group choosing to estimate the time spent in different cost categories must use a statistically valid method.

D. The compensation of a person who is classified as top management personnel and who performs any service for the central, affiliated, or corporate office must be allocated to the facility's administrative cost category in accordance with Section 3.040, item C if the facility or provider group served by the central, affiliated, or corporate office has more than 48 licensed beds.

Section 3.020 Allocation of personal expenses for owners whose primary residence is in the facility. Allocation procedures in this section must be applied to personal expenses of owners whose primary residence is in the facility to the extent that these costs were included in the facility's costs.

A. Dietary services cost allocation must be based on the number of meals served.

B. Housekeeping, plant operations, and maintenance cost allocation must be based on the ratio of square feet of floor space devoted to personal use divided by the total square feet of floor space of the facility.

C. Depreciation, interest, real estate and personal property taxes, and property and liability insurance costs must be allocated based on the ratio of square feet of floor space devoted to personal use divided by the total square feet of floor space of the facility.

D. Laundry and linen costs, and administrative costs for items such as telephones and vehicles, must be allocated based on a reasonable estimate of actual use.

Section 3.030 Cost allocations for other services. Costs associated with services other than ICF/MR services such as apartments, semi-independent living services, and any other revenue generating operations, except respite care, must be allocated using the principles in Section 3.010 and the procedures in Section 3.020.

Section 3.040 Central, affiliated, or corporate office costs. Cost allocation for central, affiliated, or corporate offices shall be governed by items A to D.

A. Central, affiliated, or corporate office costs representing services of consultants required by law or rule in areas including dietary, pharmacy, program, or other resident care related activities may be allocated to the appropriate cost category, but only to the extent that those costs are directly identified by the facility.

B. For rate years beginning on or after October 1, 1993, the central, affiliated or corporate office cost allocation in subitems (1) to (6) must be used for determining rates.

(1) All costs that can be directly identified with a specific facility that is a related organization to the central, affiliated or corporate office, or that is controlled by the central, affiliated or corporate office under a management agreement must be allocated to that facility.

(2) All costs that can be directly identified with any other activity or function not described in subitem (1) must be allocated to that activity or function.

(3) After the costs that can be directly identified according to subitems (1) and (2) have been allocated, the remaining central, affiliated or corporate office costs must be allocated between the IFC/MR operations and other activities or facilities unrelated to the ICF/MR operations based on the ratio of total operating costs determined as follows:

(a) The numerator for the allocation ratio shall be determined as follows:

i. For facilities that are related organizations or are controlled by a central, affiliated or corporate office under a management agreement, the numerator of the allocation ratio shall be equal to the sum of the total operating costs incurred by each related organization or controlled facility.

ii. For a central, affiliated or corporate office providing goods or services to related organizations that are not intermediate care facilities for persons with mental retardation or related conditions, the numerator of the allocation ratio shall be equal to the sum of the total operating costs incurred by the non-ICF/MR related organizations.

iii. For a central, affiliated or corporate office providing goods or services to unrelated intermediate care facilities for persons with mental retardation or related conditions under a consulting agreement, the numerator of the allocation ratio shall be equal to the greater of directly identified central, affiliated or corporate costs or the contracted amount.

iv. For business activities that involve the provision of goods or services to unrelated parties which are not intermediate care facilities for persons with mental

retardation or related conditions, the numerator of the allocation ratio shall be equal to the greater of directly identified costs or revenues generated by the facility or function.

(b) The denominator for the allocation ratio is the sum of the numerators in subclauses i to iv of clause (a).

(4) Those long term care operations that have intermediate care facilities for persons with mental retardation or related conditions both in Minnesota and outside of Minnesota must:

(a) Allocate the facility operation's central, affiliated or corporate office costs identified in item B, subitem (3) to Minnesota based on the ratio of total resident days in Minnesota facilities to the total resident days in all facilities.

(b) Allocate the Minnesota facility operation's central, affiliated or corporate office costs identified in clause (a) to each Minnesota facility on the basis of resident days.

(5) Definitions. For purposes of item B, the following have the meanings given them.

(a) "Management agreement" means an agreement in which one or more of the following criteria exist:

i. The central, affiliated or corporate office has or is authorized to assume day-to-day operation control of the intermediate care facility for persons with mental retardation or related conditions for any six-month period within a 24-month period. "Day-to-day operation control" means that the central, affiliated or corporate office has the authority to require, mandate, direct, or compel the employees of the facility to perform or refrain from performing certain acts, or to supplant or take the place of the top management of the facility. Day-to-day operational control includes the authority to hire or terminate employees or to provide an employee of the central, affiliated or corporate office to serve as an administrator of the facility.

ii. The central, affiliated or corporate office performs or is authorized to perform two or more of the following: the execution of contracts; authorization of purchase orders; signature authority for checks, notes, or other financial instruments; requiring the facility to use the group or volume purchasing services of the central, affiliated or corporate office; or the authority to make annual capital expenditures for the facility exceeding \$50,000 or \$500 per licensed bed, whichever is less, without first securing the approval of the facility board of directors.

iii. The central, affiliated or corporate office becomes or is required to become the licensee under applicable state law.

iv. The agreement provides that the compensation for services provided under the agreement is directly related to any profits made by the facility; or

v. The ICF/MR entering into the agreement is governed by a governing body that meets fewer than four times a year, that does not publish notice of its meetings, or that does not keep formal records of its proceedings.

(b) "Consulting" agreement means any agreement the purpose of which is for a central, affiliated or corporate office to advise, counsel, recommend, or suggest to the owner or operator of the non-related intermediate care facility measures and methods for improving the operations of the intermediate care facility.

(6) This section does not apply to payment rates determined under Sections 14.000 and 15.000, except that any additional directly identified costs associated with the Department of Human Services' or the Department of Health's managing agent under a receivership agreement must be allocated to the ICF/MR under receivership, and are nonallowable costs to the managing agent on the facility's cost report.

C. Central, affiliated, or corporate office property-related costs of capital assets used directly by a facility in the provision of ICF/MR services must be classified to the property-related cost category of the facility which uses the capital asset. Central, affiliated, or corporate office property-related costs of capital assets that are not used directly by a facility in the provision of ICF/MR services must be allocated to the administrative cost category of each facility using the methods described in item B.

D. The useful life of a capital asset maintained by a central, affiliated, or corporate office must be determined as in Section 9.010, item B.

Section 3.043 Central, affiliated, or corporate office costs for rate years beginning on or after October 1, 1996. Cost allocation for central, affiliated, or corporate offices for rate years beginning on or after October 1, 1996 shall be governed by items A to F.

A. Central, affiliated, or corporate office salary expense representing services of consultants required by law or rule in areas including dietary, pharmacy, program, or other resident care related activities may be allocated to the appropriate cost category, but only to the extent that those costs are directly identified by the facility.

B. Central, affiliated or corporate office costs representing services of consultants not required by law in the areas of program, quality assurance, medical records, dietary, other care related services, and plant operations may be allocated to the appropriate operating cost category of a facility according to subitems (1) to (5).

(1) Only the salary, fringe benefits, and payroll taxes associated with the individual performing the service may be allocated. No other costs must be allocated.

(2) The allocation must be based on direct identification and to the extent justified in time distribution records which show the actual time spent by the consultant performing services in the facility.

(3) The cost in subitem (1) for each consultant must be allocated to only one operating cost category in the facility. If more than one facility is served by a consultant, all facilities must allocate the consultant's cost to the same operating cost category.

(4) Top management personnel are not considered consultants for purposes of this item.

(5) The consultant's entire job responsibility is to provide the services identified in this item.

C. Except as provided in items A and B, central, affiliated, or corporate office costs must be allocated to the administrative cost category of each facility within the group served by the central, affiliated, or corporate office according to subitems (1) to (5).

(1) All costs that can be directly identified with a specific facility must be allocated to that facility.

(2) All costs that can be directly identified with a specific operation unrelated to the facility's operation must be allocated to that unrelated operation.

(3) After the costs that can be directly identified according to subitems (1) and (2) have been allocated, the remaining central, affiliated or corporate office costs must be allocated between the facility operations and unrelated operations based on the ratio of expenses.

(4) Next, operations that have facilities both in Minnesota and outside of Minnesota must allocate the central, affiliated, or corporate office costs to Minnesota based on the ratio of total resident days in Minnesota facilities to the total resident days in all facilities.

(5) Finally, the facility related central, affiliated, or corporate office costs must be allocated to each facility based on resident days.

D. Central, affiliated, or corporate office property-related costs of capital assets used directly by a facility in the provision of ICF/MR services must be classified to the property-related cost category of the facility that uses the capital asset. Central, affiliated, or corporate office property-related costs of capital assets that are not used directly by a facility in the provision of ICF/MR services must be allocated to the administrative cost category of each facility using the methods described in item C.

E. The useful life of a capital asset maintained by a central, affiliated, or corporate office must be determined as in Section 9.010, item B.

F. A governmental or nonprofit organization that has a federally approved cost allocation plan may allocate management fees or central office costs to a related organization based on the governmental or nonprofit organization's federal cost allocation plan. The provider must document that the allocation plan has been approved by the federal government.

Section 3.050 Allocation of costs to related or nonrelated organizations. A facility's costs associated with services or goods provided by the facility to a related or nonrelated organization must be allocated on the basis of items A to C.

A. Costs of services must be allocated based on the documentation of time spent performing the service by each individual providing services to the related organization or nonrelated organization. All identifiable expenses including salary, fringe benefits and payroll taxes, travel, and supplies of an individual providing services for related organizations or nonrelated organizations must be allocated based on the ratio of actual time spent performing the services for each related or nonrelated organization.

B. The cost of goods sold to or used by a related organization or nonrelated organization must be directly allocated to the organization. The cost of goods sold to or used by more than one organization must be allocated proportionally to each related organization or nonrelated organization based on a reasonable estimate of actual use.

C. The cost of goods or services allocated to a related organization or nonrelated organization must not be an allowable cost for the facility.

Section 3.060 Payroll tax and fringe benefit cost allocation. A facility's payroll taxes and fringe benefits reported in the payroll taxes and fringe benefit cost category must be classified to the program operating cost category, the maintenance operating cost category, and the

administrative operating cost category based on direct identification or an allocation using the ratio of allowable salary costs in each of those cost categories to total allowable salary costs.

SECTION 4.000 DETERMINATION OF ALLOWABLE COSTS.

Section 4.010 **Allowable costs.** Only costs determined to be allowable may be used to compute the total payment rate for facilities participating in the medical assistance program.

Section 4.020 **Licensure and certification costs.** The costs of meeting the applicable licensure and certification standards listed in items A to E are allowable costs for the purpose of setting the facility's total payment rate unless otherwise provided. The standards are:

- A. federal regulations for ICF/MR services;
- B. requirements established by the Department for meeting program licensing standards and standards for aversive and deprivation procedures;
- C. requirements established by the Department of Health for meeting health standards as set out by state rules and federal regulations;
- D. requirements to comply with changes in federal or state laws and regulations; and
- E. other requirements for licensing under federal or state law, state rules, federal regulations, or local standards that must be met to provide ICF/MR services.

Section 4.030 **Service costs.** The costs of services including program, maintenance, administrative, payroll taxes and fringe benefits, and property-related costs are allowable costs for the purpose of setting the facility's total payment rate unless otherwise stated.

Section 4.040 **Applicable credits.** Applicable credits must be used to offset or reduce the expenses of the facility to the extent that the cost to which the credits apply was claimed as a facility cost. This cost principle does not apply to items A and B:

- A. payments made by the Department to the provider for approved services for very dependent persons with special needs.
- B. gifts and donations from nongovernmental sources.

Section 4.050 **Adequate documentation.** A facility shall keep adequate documentation.

A. In order to be considered adequate, documentation must:

- (1) be maintained in orderly, well-organized files;
- (2) not include documentation of more than one facility in one set of files unless transactions may be traced by the Department to the facility's annual cost report;
- (3) include a paid invoice or copy of a paid invoice with date of purchase, vendor name and address, purchaser name and delivery address, listing of items or services purchased, cost of items purchased, account number to which the cost is posted, and a breakdown of any allocation of costs between accounts or facilities. If any of the information to be listed on the invoice is not available, the providers shall document their good faith attempt to obtain the information;
- (4) include copies of all written agreements and debt instruments to which the facility is a party and any related mortgages, financing statements, and amortization schedules to explain the facility's costs and revenues;
- (5) if a cost or revenue item is not documented under subitem (3) or (4), the facility must document the amount, source, and purpose of the item in its books and ledgers following generally accepted accounting principles and in a manner providing an audit trail; and
- (6) be retained by the facility to support the five most recent annual cost reports submitted to the Department. The Department may extend the period of retention if the field audit was postponed because of inadequate record keeping or accounting practice, or if the records are necessary to resolve a pending appeal.

B. Providers must document all consultant, professional, or purchased service contracts. They must maintain copies of all contracts and invoices relating to consultant, professional, or purchased services. These documents must include the name and address of the vendor or contractor, the name of the person who actually performed the services, the dates of service, a description of the services provided, the unit cost, and the total cost of the service.

C. Payroll records must be maintained by a facility and must show the amount of compensation paid to each employee and the days and hours worked. Complete and orderly cost allocation records must be maintained for cost allocations made among cost categories or

facilities.

D. Documentation of mileage must be maintained in a motor vehicle log. Except for motor vehicles exclusively used for facility business, the facility or related organization must maintain a motor vehicle log for each vehicle used by the facility that shows personal and facility mileage for the reporting year. Mileage paid for the use of a private vehicle must be documented.

E. Payroll records supporting compensation costs claimed by ICFs/MR must be supported by affirmative time and attendance records prepared by each individual at intervals of not more than one month. The affirmative time and attendance record must identify the individual's name, the days worked during each pay period, the number of hours worked each day, and the number of hours taken each day by the individual for vacation, sick, and other leave. The affirmative time and attendance record must include a signed verification by the individual and the individual's supervisor, if any, that the entries reported on the record are correct.

Section 4.060 Compensation for services performed by individuals. Compensation for services performed by individuals includes all the remuneration paid currently, accrued or deferred, for services rendered by the provider or employees of the facility. Only compensation costs for the reporting period are allowable.

A. Compensation includes:

- (1) salaries, wages, bonuses, vested vacation, vested sick leave, and employee benefits paid for managerial, administrative, professional, and other services;
- (2) amounts paid by the provider for the personal benefit of the provider or employees;
- (3) deferred compensation and individual retirement accounts (IRAs);
- (4) the costs of capital assets, supplies, services, or any other in-kind benefits the provider or employees receive from the facility or related organization, except the cost of capital assets, supplies, services, or other in-kind benefits incurred as a necessary cost for an employee who is required to supervise resident activities or to reside in the facility as a condition of employment; and
- (5) payments to organizations of nonpaid workers that have arrangements with the facility for the performance of services by the nonpaid workers.

For purposes of this item, in-kind benefit means benefit received in a medium other than cash for personal services performed.

B. The facility must have a written policy for payment of compensation for services performed by individuals. The policy must:

(1) relate the individual's compensation to the performance of specified duties and to the number of hours worked by the individual. Only the compensation of persons employed by the hour must be stated in terms of an hourly wage. The number of hours worked by salaried employees may be stated in terms of the average annual hours worked for each facility.

(2) result in compensation payable under the policy which is consistent with the compensation paid to persons performing similar duties in the ICF/MR industry. Employees covered by collective bargaining agreements are not required to be covered by the policy if the collective bargaining agreement otherwise meets the essentials of the policy required by this item.

(3) specify the nature and cost to the provider or provider group of any in-kind benefits included in the compensation.

C. Only services which are necessary services shall be compensated.

D. Except for accrued vested vacation and accrued vested sick leave, compensation must be actually paid, whether by cash or negotiable instrument, within 121 days after the close of the reporting year. If payment is not made within 121 days, the unpaid compensation must be disallowed in that reporting year. Payments made after the 121-day period are allowable in the reporting year made.

Section 4.070 Limitations on related organization costs. Related organization costs are subject to items A to D.

A. Costs applicable to services, capital assets, or supplies directly or indirectly furnished to the provider by any related organization may be included in the allowable cost of the facility at the purchase price paid by the related organization for capital assets or supplies and at the cost incurred by the related organization for the provision of services to the facility if these prices or costs do not exceed the prices of comparable services, capital assets, or supplies that could be purchased elsewhere. For this purpose, the related organization's costs must not include an amount for mark up or profit, except as provided in the following paragraph.